

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 KUALA LUMPUR 1940

E.O. 11652: GDS-1
SUBJECT: EINV, MY
SUBJECT: GOM RESTATES ITS INVESTMENT POLICIES

1. SUMMARY: ABDUL MANAN BIN OTHMAN, RECENTLY APPOINTED DEPUTY MINISTER OF TRADE AND INDUSTRY HAS RECENTLY PROVIDED THE FIRST COMPREHENSIVE REVIEW OF THE GOM'S INVESTMENT POLICY SINCE NEW TEAM HEADED BY DEPUTY PRIME MINISTER MAHATHIR HAS ASSUMED TRADE AND INDUSTRY PORTFOLIO. WHILE ANNOUNCING FEW SIGNIFICANT POLICY CHANGES, ABDUL MANAN STRESSED GOM FLEXIBILITY AND SUBTLY SHIFTED EMPHASIS. MOST WELCOME ANNOUNCEMENT IS THAT SHARES COMPANIES MUST RESERVE FOR MALAYS CAN BE SOLD AT MARKET RATHER THAN PAR VALUE. SPEECH HAS BEEN PUBLICALLY WELCOMED BY BUSINESSMEN BUT MANY CONTINUE TO HAVE PRIVATE RESERVATIONS AND IT APPEARS THAT DPM'S GOAL OF A "ONE-STOP" INVESTOR SERVICE IS RUNNING INTO BUREAUCRATIC FOOT DRAGGING. END SUMMARY.

2. IN AN ADDRESS DELIVERED TO A CONFERENCE ON INVESTMENT IN SOUTHERN MALAYSIA, ABDUL MANAN BIN OTHMAN, RECENTLY APPOINTED DEPUTY MINISTER OF TRADE AND INDUSTRY, PRESENTED A COMPREHENSIVE REVIEW OF MALAYSIAS INVESTMENT CLIMATE AS IT PERTAINS TO THE IMPORTANT MANUFACTURING SECTOR. SEMINAR WAS FIRST OF A REGIONAL NATURE ORGANIZED BY GOM FEDERAL INDUSTRIAL
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DEVELOPMENT AUTHORITY (FIDA) WHICH IS CHARGED WITH INVESTMENT PROMOTION.

3. ABDUL MANAN REVIEWED THE ROLE THAT THE GOM HAS TARGETED FOR THE MANUFACTURING SECTOR IN THE THIRD MALAYSIA PLAN (TMP, 1976-1980). THE PLAN CALLS FOR ANNUAL INCREASES OF 12 PERCENT IN TERMS OF VALUE ADDED, 7.4 PERCENT IN EMPLOYMENT AND 19.9 PERCENT

GROWTH IN ANNUAL EXPORT SALES. HE STATED THAT THE GOM IS PLANNING ON U.S. \$11.4 BILLION IN PRIVATE INVESTMENT DURING THE TMP PERIOD AND THAT, BASED ON INCREMENTAL CAPITAL/OUTPUT AND CAPITAL/ LABOR RATIOS DERIVED FROM TMP PROJECTIONS, ROUGHLY \$4.25 BILLION WILL BE NEEDED IN THE MANUFACTURING SECTOR. HE INDICATED THAT OF THIS AMOUNT, THE GOM EXPECTED THAT BETWEEN \$1.3 AND \$2.1 BILLION (31 TO 49 PERCENT) WOULD COME FROM FOREIGN INVESTORS (THIS IS THE FIRST PUBLIC MENTION WE HAVE SEEN OF THE TARGETS FOR FOREIGN INVESTMENT AS A PORTION OF MANUFACTURING SECTOR INVESTMENT IN THE TMP).

4. WITH REFERENCE TO THE CONTROVERSIAL INDUSTRIAL COORDINATION ACT (ICA), WHICH MANY OBSERVERS HAVE SINGLED OUT AS THE SINGLE MOST IMPORTANT FACTOR IN THE INVESTMENT SHORTFALL IN MALAYSIA, ABDUL MANAN SOUGHT TO REASSURE EXISTING AND POTENTIAL VISITORS AS TO THE GOM'S BASIC INTENTIONS. HE REITERATED THAT THE PRIME OBJECTIVES OF THE ICA WERE TO: ENSURE ORDERLY DEVELOPMENT OF THE MANUFACTURING SECTOR; ASSIST IN IMPLEMENTATION OF THE GOM'S INDUSTRIALIZATION POLICY; AND TO FACILITATE THE COLLECTION OF DATA AND INFORMATION ON MANUFACTURING ACTIVITIES. ABDUL MANAN STATED QUOTE THE GOVERNMENT HAS PROVEN ITSELF TIME AND AGAIN TO BE FLEXIBLE AND ACCOMODATING TO THE REALISTIC DEMANDS OF THE PRIVATE SECTOR.

YOU CAN REST ASSURED THAT IF IN THE IMPLEMENTATION OF THE ICA, GOVERNMENT OFFICIALS DO NOT KEEP IN LINE WITH SPIRIT AND CONFIDENTIAL

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ASSURANCES GIVEN BY THE MINISTER, WE WILL TAKE REMEDIAL ACTION TO ENSURE OUR COMMITMENTS ARE UPHELD. END QUOTE. HE MENTIONED THAT AS OF THE END OF 1977, 1542 ICA LICENCES HAVE BEEN ISSUED (OUT OF AN ESTIMATED 4-5000 COMPANIES THAT WILL BE REQUIRED TO HAVE THEM).

5. ABDUL MANAN ALSO ADDRESSED WHAT HE DESCRIBED AS THE "MISCONCEPTIONS" ABOUT THE GOM'S EQUITY PARTICIPATION POLICY WHICH REQUIRED THAT BY 1990, OWNERSHIP IN THE CORPORATION SECTOR WILL BE 30 PERCENT BUMIPUTRA (MALAYS AND OTHER PEOPLES), 40 PERCENT OTHER MALAYSIANS AND 30 PERCENT FOREIGN. HE REVIEWED THE GOM'S BROAD GUIDELINES FOR FOREIGN EQUITY PARTICIPATION WHICH GENERALLY INDICATE THAT IN THE CASE OF INDUSTRIAL PROJECTS FOR THE DOMESTIC MALAYSIAN MARKET, MAJORITY MALAYSIAN OWNERSHIP IS REQUIRED. FOR PROJECTS UTILIZING NON-RENEWABLE RESOURCES (SUCH AS TIN) AT LEAST 70 PERCENT MALAYSIAN EQUITY (INCLUDING 30 PERCENT BUMIPUTRA) OWNERSHIP WOULD BE REQUIRED. FINALLY, IN THE AREA OF GREATEST INTEREST TO MOST U.S. FIRMS, HE REITERATED THAT FOR EXPORT PRODUCT MANUFACTURERS, THE GOM WOULD CONTINUE TO FAVORABLY CONSIDER FOREIGN MAJORITY OWNERSHIP, INCLUDING 100 PERCENT FOREIGN OWNERSHIP IF THE CASE WARRANTED IT. ABDUL MANAN EMPHASIZED THAT THE GOM IS PREPARED TO FLEXIBLY CONSIDER ANY INVESTMENT

PROPOSAL.

6. THE DEPUTY MINISTER ANNOUNCED ONE AGNEW IMPORTANT POLICY DECISION REGARDING BUMIPUTRA EQUITY PARTICIPATION. THE GOM REQUIRES IN MANY CASES THAT A NEW INVESTOR SET ASIDE "RESERVED SHARES" FOR PURCHASE BY BUMIPUTRA INVESTORS. ABDUL MANAN

STATED THAT VAYXROJECTS WOULD BE HELD UP BY THE GOM WHEN A FIRM ENCOUNTERED DIFFICULTY IN LOCATING BUMIPUTRA INVESTORS AND, OF EVEN GREATER SIGNIFICANCE, SHARES RESERVED WOULD NOT HAVE TO BE SOLD AT PAR VALUE. THIS REPRESENTS A SIGNIFICANT LIBERALIZATION IN EXISTING POLICY.

7. ABDUL MANAN STATED THAT THE GOM IS PLANNING TO SET UP A CONFIDENTIAL

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"ONE-STOP" CENTRAL UNIT IN FIDA (AN IDEA STRONGLY SUPPORTED BY THE DEPUTY PRIME MINISTER) WHERE INVESTORS COULD SEEK CLARIFICATION ON PROBLEMS RELATION TO INDUSTRIAL POLICIES AND COME FOR ASSISTANCE ON MATTERS PERTAINING TO APPLICATIONS FOR APPROVALS, OBTAINING WORK PERMITS, EXEMPTION FROM CUSTOMS DUTIES, AND AVAILABILITY OF SUPPORT FACILITIES AND UTILITIES.

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C O N F I D E N T I A L SECTION 2 OF 2 KUALA LUMPUR 1940

8. COMMENT: THIS FORTHCOMING STATEMENT BY THE NEW DEPUTY MINISTER, THE FIRST COMPREHENSIVE ONE SINCE DEPUTY

PRIME MINISTER MAHATHIR ASSUMED THE TRADE AND INDUSTRY PORTFOLIO, HAS GENERATED EXTENSIVE INTEREST AND MUCH FAVORABLE PUBLIC COMMENT BY FOREIGN AND DOMESTIC BUSINESSMEN. IT CLEARLY REFLECTS DR. MAHATHIR'S DESIRE TO IMPROVE THE INVESTMENT CLIMATE AND REPEATS HIS DECISION TO SEEK A ONE-STOP OFFICE TO ASSIST INVESTORS. ESPECIALLY WELCOME IS THE ASSURANCE THAT RESERVED SHARES CAN BE SOLD AT MARKET RATHER THAN PAR VALUE AS THIS HAS CAUSED CONSIDERABLE UNEASE AMONG POTENTIAL AND EXISTING INVESTORS IN THE PAST. IT ALSO APPEARS THAT ABDUL MANAN WAS DELIBERATELY VAGUE IN TWO AREAS: BUMIPUTRA EQUITY PARTICIPATION AND EQUITY REQUIREMENTS FOR VARIOUS TYPES OF INDUSTRIES. IN THE PAST, GOM SPOKESMAN HAVE TENDED TO NAIL DOWN PERCENTAGE EQUITY REQUIREMENTS MORE STRONGLY IN THEIR PUBLIC UTTERANCES. THE DEPUTY MINISTER SEEMS TO BE PURPOSEFULLY ENLARGING GREAY AREAS SO AS TO PROVIDE THE GOM WITH GREATER FREEDOM TO NEGOTIATE. AD ABDUL MANAN'S INTENT WAS CLEARLY TO BE UPBEAT, THE SPEECH ONLY HINTS AT DIFFICULTIES WHICH BESET THE GOM IN ITS ATTEMPT TO MEET THE TMP PRIVATE INVESTMENT TARGETS WHICH HAVE REPORTEDLY FALLEN WOEFULLY BEHIND. OUR CONTACTS HAVE TOLD US THAT SUBSTANTIAL BUREAUCRATIC RESISTANCE EXISTS TO FORMING A ONE-STOP INVESTOR UNIT IN FIDA. THE MINISTRIES THAT ARE PARTICULARLY DRAGGING THEIR FEET, FINANCE
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AND HOME AFFAIRS (WHICH HANDLES IMMIGRATION), ARE BOTH HEADED BY POWERFUL POLITICAL FIGURES WHO HAVE SHOWN LITTLE DESIRE IN THE PAST TO RELINQUISH CONTROL OVER IMPORTANT AREAS. FINALLY, THE ICA APPROVAL FIGURES MENTIONED BY ABDUL MANAN INDICATE THAT THE CHINESE BUSINESSMEN ARE STILL ACTIVELY RESISTING COMPLYING WITH THE ACT. THAT THIS IS CONTINUING BODES POORLY FOR DOMESTIC INVESTMENT PROSPECTS IN THE SHORT TERM. DESPITE THESE DIFFICULTIES, HOWEVER, THE SPEECH IS CLEARLY A SIGNAL THAT DR. MAHATHIR IS SERIOUS ABOUT SEEKING MEASURES TO IMPROVE THE INVESTMENT CLIMATE.
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